

Department of Education
STUDENT AID ADMINISTRATION
Fiscal Year 2012 Budget Request

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STUDENT AID ADMINISTRATION

For Federal administrative expenses to carry out part D of title I, and subparts 1, 3, 4, 9, and 10 of part A, and parts B, C, D, and E of title IV of the Higher Education Act of 1965, \$1,095,418,000, to remain available until September 30, 2013¹: *Provided*, That not more than \$370,314,000 may be used to carry out loan servicing activities²: *Provided further*, That with respect to the previous proviso, amounts may be increased (from amounts provided under this heading) due to changes in the loan portfolio, upon the determination by the Secretary that additional amounts are needed and the Secretary notifies the Committees on Appropriations of the House of Representatives and the Senate of such determination.³

NOTES

A regular 2011 appropriation for this account had not been enacted at the time the budget was prepared; therefore, this account is operating under a continuing resolution (P.L. 111-322, Dec. 22, 2010; 124 Stat 3518) that provides funding through March 4, 2011. The amounts included for fiscal year 2011 in this budget reflect the annualized levels provided by the continuing resolution.

Each language provision that is followed by a footnote reference is explained in the Analysis of Language Provisions and Changes document, which follows the appropriation language.

STUDENT AID ADMINISTRATION

Analysis of Language Provisions and Changes

Language Provision	Explanation
¹ <u>...to remain available until September 30, 2013</u>	This language provides for the availability of funds to remain available for 2 years. Current period of availability is available until expended.
² <u>Provided, That not more than \$370,314,000 may be used to carry out loan servicing activities</u>	This language describes a ceiling on the amount of the provided funds that can be used for loan servicing activities.
³ <u>Provided further, That with respect to the previous proviso, amounts may be increased (from amounts provided under this heading) due to changes in the loan portfolio, upon the determination by the Secretary that additional amounts are needed and the Secretary notifies the Committees on Appropriations of the House of Representatives and the Senate of such determination.</u>	This language provides a process to allow increases to be made to the amounts for loan servicing activities.

STUDENT AID ADMINISTRATION

Amounts Available for Obligation (\$000s)

	2010	2011 CR	2012
Discretionary appropriation:			
Appropriation	\$870,402	0	\$1,095,418
Rescission (PL 111-126)	-82,000	0	0
Annualized CR (PL 111-322)	<u>0</u>	<u>\$870,402</u>	<u>0</u>
Subtotal, discretionary appropriation	788,402	870,402	1,095,418
Mandatory appropriation:			
Not-For-Profit Loan Servicing	<u>123,553</u>	<u>208,872</u>	<u>246,826</u>
Subtotal, discretionary and mandatory appropriation	911,955	1,079,274	1,342,244
Unobligated balance, start of year	56,262	1,108	0
Unobligated balance, start of year, Recovery Act	31,183	0	0
Recovery of prior-year obligations	22,143	0	0
Recovery of prior year obligations, Recovery Act	174	0	0
Unobligated balance transferred from <u>Student Financial Assistance</u>	18,000	0	0
Unobligated balance expiring	-5,972	0	0
Unobligated balance, end of year	<u>-1,108</u>	<u>0</u>	<u>0</u>
Subtotal, direct obligations	1,001,280	1,080,382	1,342,244
Subtotal, Recovery Act direct obligations	<u>31,357</u>	<u>0</u>	<u>0</u>
Total, direct obligations	1,032,637	1,080,382	1,342,244

NOTE

A regular 2011 appropriation for this account had not been enacted at the time the budget was prepared; therefore, this account is operating under a continuing resolution (P.L. 111-322, Dec. 22, 2010; 124 Stat 3518) that provides funding through March 4, 2011. The amounts included for fiscal year 2011 in this budget reflect the annualized levels provided by the continuing resolution.

STUDENT AID ADMINISTRATION
Obligations by Object Classification
(\$000s)

Object Class		2010	2011	2012
11.10	Full-time permanent	\$111,940	\$136,917	\$148,849
11.31	Full-time temporary	2,681	0	0
11.32	Part-time	624	0	0
11.33	Consultants	131	0	0
11.51	Overtime	56	75	75
11.52	Awards	3,115	2,896	2,896
	Compensation subtotal	118,547	139,888	151,820
12.00	Benefits	31,059	37,682	40,472
	Comp/benefits subtotal	149,606	177,570	192,292
21.00	Travel	2,776	3,330	4,600
22.00	Transportation	35	0	0
23.10	Rental Payments to GSA	17,188	18,216	19,079
23.31	Communications	1,597	128	128
23.32	Postage/fees	45	464	464
	Subtotal 23	18,830	18,808	19,671
24.00	Printing & Reproduction	3,328	4,215	4,422
25.10	Advisory and Assistance Svcs	5,765	2,500	5,115
25.21	Other Services	23,713	594,097	817,669
25.22	Training/Tuition/Contracts	2,177	1,537	3,306
25.30	Goods/Services from Gov't	25,682	17,365	16,631
25.40	Operations/Maint of Facilities	96	2	50
25.71	Operations/Maint of Equipment	32	38	35
25.72	IT Services/Contracts	746,319	235,038	277,411
25.72	IT Services/Contracts, Recovery	31,357	0	0
	Subtotal 25	803,784	850,577	1,120,217
26.00	Supplies	307	321	350
31.10	IT Equipment/Software	3,160	505	437
32.00	Building Alterations	423	56	255
41.10	Grants and Cooperative Agreements	19,028	25,000	0
43.10	Interest and Dividends	2	0	0
43.10	Interest and Dividends, Recovery	1	0	0
	Subtotal, obligations	1,001,279	1,080,382	1,342,244
	Subtotal, Recovery obligations	31,358	0	0
	Total, obligations	1,032,637	1,080,382	1,342,244
	Discretionary obligations	915,056	871,510	1,095,418
	Mandatory obligations	117,581	208,872	246,826

STUDENT AID ADMINISTRATION

Summary of Changes (\$000s)

2011 CR.....	\$870,402
2012.....	<u>1,095,418</u>
Net change	+225,016

	<u>2011 CR base</u>	<u>Change from base</u>
Increases:		
<u>Built-in:</u>		
Increase in benefits for the Department's share of health, retirement, and other benefits.	\$37,682	+\$492
Increase in GSA rental payments due to anticipated rate increases and tax escalation.	18,216	+863
<u>Program:</u>		
Increase in other services mostly due to increases in Common Origination and Disbursement (+ \$54,200 thousand) and loan servicing activities (+ \$93,900 thousand).	409,117	+161,726
Increase in information technology contracts mostly due to Virtual Data Center (+ \$12,200 thousand), Integrated Partner Management (+ \$12,000 thousand), and Enterprise Information Technology Integration (+ \$8,300 thousand).	235,038	+42,373
Increase in personnel compensation and benefits for program and contract oversight efforts.	136,917	+14,230
Increase in advisory & assistance services to provide better data management and measurement of program and operational performance.	2,500	+2,615
Increase in training.	1,537	+1,769
Increase in travel to increase program compliance and enforcement efforts.	3,330	+1,270

STUDENT AID ADMINISTRATION

Summary of Changes (\$000s)

	<u>2011 CR base</u>	<u>Change from base</u>
Increases:		
<u>Program:</u>		
Increase in printing due to growth of schools participating in Direct Loan program.	\$4,215	+\$207
Increase in building alterations.	56	+199
Increase in maintenance/operations of facilities.	2	+48
Increase in supplies.	321	<u>+29</u>
Subtotal, increases		+225,821
Decreases:		
<u>Program:</u>		
Decrease in goods and services from the Government due to lower cost of IRS Data Share.	17,365	-734
Decrease in IT equipment.	505	-68
Decrease in maintenance/operations of equipment.	38	<u>-3</u>
Subtotal, decreases		-805
Net change		+225,016

STUDENT AID ADMINISTRATION

Authorizing Legislation (\$000s)

Activity	2011 CR Authorized	2011 CR Estimate	2012 Authorized	2012 Request
Student aid administration (Higher Education Act of 1965, I-D and IV-D, section 458)	<u>Indefinite</u>	<u>\$870,402</u>	<u>Indefinite</u>	<u>\$1,095,418</u>
Total definite authorization	0		0	
Total appropriation		870,402		1,095,418

STUDENT AID ADMINISTRATION

Appropriations History (\$000s)

	Budget Estimate to Congress	House Allowance	Senate Allowance	Appropriation
2003	\$936,386	\$105,388	\$105,388	\$104,703
2004	947,010	120,010	104,703	116,727
2005	934,639	120,247	121,000	119,084
2006	939,285	124,084	120,000	118,800
2007	733,720	N/A ¹	N/A ¹	719,914 ¹
Rescission (PL 110-28)				-500
Transfer (PL 110-05)				-1,464
2008	708,216	708,216	708,216	695,843
2009	764,000	714,000 ²	704,843 ²	753,402
Recovery Act Supplemental (PL 111-5) (non-add)	0	50,000	0	60,000
2010	870,402	870,402	870,402 ³	870,402
Rescission (PL 111-226)				-82,000
2011	1,170,231	994,000 ⁴	1,048,078 ³	870,402 ⁵
2012	1,095,418			

¹ This account operated under a full-year continuing resolution (P.L. 110-5). House and Senate Allowance amounts are shown as N/A (Not Available) because neither body passed a separate appropriations bill.

² The levels for the House and Senate allowances reflect action on the regular annual 2009 appropriations bill, which proceeded in the 110th Congress only through the House Subcommittee and the Senate Committee.

³ The level for the Senate allowance reflects Committee action only.

⁴ The level for the House allowance reflects the House-passed full-year continuing resolution.

⁵ The level for appropriation reflects the continuing resolution (P.L. 111-322) enacted December 22, 2010.

DEPARTMENT OF EDUCATION FISCAL YEAR 2012 PRESIDENT'S BUDGET

(in thousands of dollars)		Category Code	2010 Appropriation	2011 CR Annualized	2012 President's Budget	2012 President's Budget Compared to 2011 CR	
Account, Program and Activity						Amount	Percent
Student Aid Administration (HEA I-D and IV-D, section 458)							
1.	Salaries and expenses ¹	D	452,763	594,036	725,104	131,068	22.1%
2.	Servicing activities	D	335,639	276,366	370,314	93,948	34.0%
3.	Technical assistance to institutions of higher education	M	50,000	0	0	0	---
4.	Additional payments to loan servicers for job retention	M	25,000	25,000	0	(25,000)	-100.0%
5.	Not-for-profit servicers	M	48,553	183,872	246,826	62,954	34.2%
Total			911,955	1,079,274	1,342,244	262,970	24.4%
Discretionary			788,402	870,402	1,095,418	225,016	25.9%
Mandatory			123,553	208,872	246,826	37,954	18.2%

NOTES: -Category Codes are as follows: D = discretionary program; M = mandatory program.

-The FY 2011 level for appropriated funds is an annualized amount provided under the fourth Continuing Resolution (P.L. 111-322).

¹ Does not reflect a transfer in FY 2010 of \$18,000 thousand from FY 2009 Federal Work-Study under the authority provided by Sec. 304 of P.L. 111-8. Reflects a rescission in FY 2010 of \$82,000 thousand under P.L. 111-226.

STUDENT AID ADMINISTRATION

Student Aid Administration

(Higher Education Act of 1965, I-D and IV-D, section 458)

FY 2012 Authorization (\$000s): Indefinite

Budget Authority (\$000s):

	<u>2011 CR</u>	<u>2012</u>	<u>Change</u>
Salaries and Expenses:			
Personnel costs	\$177,570	\$192,292	+\$14,722
Non-personnel costs,			
excluding Loan servicing activity costs	<u>416,466</u>	<u>532,812</u>	<u>+116,346</u>
Subtotal, salaries and expenses	594,036	725,104	+131,068
Loan servicing activity costs	<u>276,366</u>	<u>370,314</u>	<u>+93,948</u>
Total, discretionary costs	870,402 ¹	1,095,418	+225,016
Total, mandatory costs	<u>208,872²</u>	<u>246,826³</u>	<u>+37,954</u>
Total, student aid administration	1,079,274	1,342,244	+262,970
FTE employees	1,291	1,311	+20

¹ Funding Levels in FY 2011 represent the annualized continuing resolution levels of the 4th Continuing Appropriations Act, 2011 (P.L. 111-322).

² Includes \$25,000 thousand in funds to retain jobs at loan servicers, \$162,626 thousand in servicing costs for Not-For-Profit servicing contracts, \$19,546 thousand in systems development costs to implement Not-For-Profit servicers, and \$1,700 thousand for a customer satisfaction survey needed to allocate Not-For-Profit servicer volume.

³ Includes \$235,476 thousand in servicing costs for Not-For-Profit servicing contracts, \$10,000 thousand in systems development costs to implement Not-For-Profit servicers, and \$1,350 thousand for a customer satisfaction survey needed to allocate Not-For-Profit servicer volume.

PROGRAM DESCRIPTION

Student Aid Administration provides funds to administer the Federal student financial assistance programs authorized under Title IV of the Higher Education Act (HEA) of 1965, as amended. The Title IV programs, which provide funds to help students and families pay for the cost of postsecondary education, are the Nation's largest source of financial aid for postsecondary students. This account administers the student aid lifecycle, including: educating students and families about the process for obtaining aid; processing millions of student financial aid applications; disbursing billions of aid dollars; guaranteeing billions of dollars in existing loans; servicing tens of millions of loans; and partnering with schools, financial institutions, and guaranty agencies to prevent fraud, waste, and abuse.

STUDENT AID ADMINISTRATION

The Offices of Postsecondary Education (OPE) and Federal Student Aid are primarily responsible for administering the Federal student financial assistance programs. OPE formulates policy for the student financial assistance programs and administering other Federal postsecondary education programs. In addition, a number of other Department offices—Office of Management, Office of Planning, Evaluation and Policy Development, Office of the General Counsel, Office of the Chief Information Officer, Office of the Inspector General, and Office of the Chief Financial Officer—contribute to the administration of the student aid programs.

The Higher Education Amendments of 1998 established Federal Student Aid as the Federal Government's first performance-based organization (PBO) to improve service to students, parents, schools, and other program participants; to reduce student aid administration costs; to increase the accountability of the officials responsible for administering program operations; and to integrate the student aid processing and delivery systems. Since Federal Student Aid's creation as a PBO in 1998, it has increased the cost efficiency of processing and delivering student financial aid and has improved customer service, particularly in the interaction between customers and Federal Student Aid's systems.

The Federal Pell Grant Program is the foundation for Federal financial assistance. It helps ensure financial access to postsecondary education – disbursing \$37 billion to almost 9 million low- and middle-income undergraduate students during the 2010–2011 award year, with an average award of \$4,115. The maximum Pell Grant award was \$4,731 for the 2008–2009 award year, was \$5,350 for the 2009–2010 award year, and is \$5,550 for both the 2010–2011 and 2011–2012 award years.

The William D. Ford Federal Direct Loan Program and Federal Family Education Loan (FFEL) Program are the main drivers of administration workload. The Federal Direct Loan Program lends funds directly to students through participating schools by providing subsidized and unsubsidized loans; interest on subsidized loans is paid by the Government during qualified periods of in-school, grace, and deferment, while interest on unsubsidized loans is not paid by the Government, but accrues at the time of disbursement and is paid by the borrower. In addition, Federal Plus loans provide parents the ability to borrow on behalf of their undergraduate children and allow graduate students the opportunity to borrow additional funds. The program is funded by borrowings from the U.S. Treasury, as well as an appropriation for subsidy costs. In FY 2010, the Department made \$84.7 billion in loans (not including consolidations) to 8.4 million recipients.

The FFEL Program provided the same eligibility requirements and loan limits as the Federal Direct Loan Program; however, instead of funds being directly disbursed by the Government to borrowers, lenders provided funds to borrowers, which were insured by loan guaranty agencies and then reinsured by the Government. In FY 2010, the Department supported the delivery of \$19.6 billion in net loans (not including consolidations) to 2.9 million FFEL borrowers.

As a result of uncertainty in the financial markets, the Ensuring Continued Access to Student Loans Act of 2008, (PL 110-227) (ECASLA) provided the Department a mechanism whereby private lenders maintained access to capital needed to make Federal student loans. Under the ECASLA authority, the Department implemented four programs on July 1, 2008, to ensure students and families had access to FFEL loans through the 2009–2010 award year. The Department purchased approximately \$48.5 billion in 2008–2009 loans through the 2008–2009

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Loan Participation and Loan Purchase Commitment Programs. For the 2009-2010 Loan Participation and Loan Purchase Commitment Programs, the Department purchased approximately \$59.8 billion in 2009-2010 loans. The Asset-Backed Commercial Paper Conduit Program is the remaining active ECASLA program. Detailed information on these programs is available online at: <http://Federalstudentaid.ed.gov/ffelp>.

- Loan Participation Purchase Program under which the Department bought an interest in 2008–2009 loans and 2009-2010 loans; this program ended in October 2010.
- Loan Purchase Commitment Program under which lenders sold the Department 2008–2009 loans and 2009-2010 loans; this program ended in October 2010.
- Short-Term Purchase Program under which lenders sold the Department \$1 billion in 2007–2008 loans; this program ended in February 2009.
- Asset-Backed Commercial Paper Conduit Program under which the Department guarantees it will purchase 2004–2005 through 2008–2009 loans used to support commercial paper issuances.

The ECASLA efforts expanded the loan servicing workload. In effect, ECASLA increased the Department's loan servicing workload as much as Direct Loans.

The enactment of the Student Aid and Fiscal Responsibility Act (SAFRA) under the Health Care and Education Reconciliation Act of 2010 (HCERA) ended the origination of new loans under the FFEL program and, therefore, the need for the ECASLA programs, by requiring all new loans to be originated through the Direct Loan (DL) program (except for Perkins loans) and serviced by the Department of Education effective July 1, 2010. Although all new lending will be through the DL program, lenders and guaranty agencies will continue to service and collect outstanding loans from the FFEL portfolio. In addition, selected policies may draw on ECASLA business models and ECASLA programs will continue to reflect financing activity in future years. Mandatory budget authority to support loan servicing performed by Not-For-Profit servicers was also authorized by SAFRA, through FY 2019. While this mandatory funding helps, it does not provide enough for all of the increased servicing workload from Direct Loans and ECASLA. The Department also relies on For-Profit servicers, Sallie Mae and Nelnet, for much of the increased work.

The American Recovery and Reinvestment Act of 2009 provided Student Aid Administration an additional \$60 million to support loan servicing. In FY 2009, \$20 million was used for loan servicing for ECASLA and \$8.8 million was used for the National Student Loan Data System. In FY 2010, \$22.9 million was used by the Title IV Additional Servicers for loan servicing and \$8.3 was used for the National Student Loan Data System.

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Funding levels for the past 5 fiscal years were as follows:

	(\$000s)
2007	\$717,691
2008	695,843
2009	753,402
Recovery Act.....	60,000
2010.....	806,402
2011 CR.....	870,402

FY 2012 BUDGET REQUEST

The Department requests \$1.095 billion to administer the Federal student aid programs in 2012, a net increase of \$225 million—or 25.9 percent—more than the FY 2011 CR level. The requested increase is focused mainly on servicing and other student aid systems costs in order to manage increased loan volume, ensure the operational integrity of Federal student aid systems, and provide high quality service to students and parents. Additional FTE are also being requested, primarily in the areas of program and contract oversight.

The requested increase is necessary to achieve approximately \$67 billion in savings over the next 10 years, according to CBO estimates, by transitioning all Federal student loan originations to the Direct Loan Program.

Despite massive cuts to the budget to preserve only funding central to student aid delivery and loan servicing, the FY 2011 annualized CR level of \$870.4 million is only sufficient to cover these operations (specifically loan servicing and data center costs) for 10 months. At a minimum, \$994 million is needed to fund student aid delivery and servicing for 12 months, ensure the successful functioning of operations, and provide an adequate level of program and contract oversight. Not providing the additional funding in 2011 would jeopardize timely aid awards to approximately 16 million college students, and would likely require the cessation of all loan servicing activities in the first quarter of FY 2012. The 2012 request assumes adequate funding will be provided in 2011.

Significant Changes

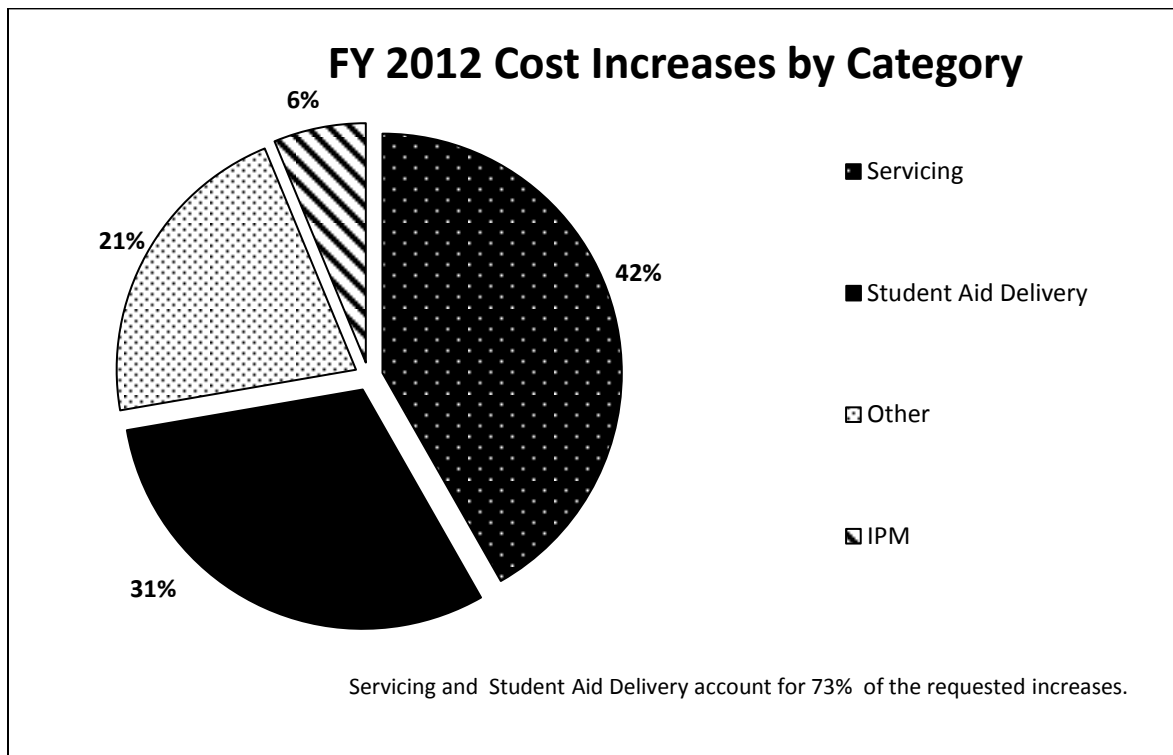
Most of the requested net increase is attributable to:

1. Increase in student aid delivery contract costs, for continued operations and increased Direct Loan volume tied to passage of SAFRA (+\$67.3 million). In 2010, Federal Student Aid strategically funded \$42.7 million in Common Origination and Disbursement (COD) contract costs in order to manage within a possible full-year CR level in 2011. This resulted in a corresponding one-time decrease in COD needs for 2011. The funding needs to be restored in 2012 to fund ongoing origination and disbursement costs. In addition, application, origination, and system hosting costs are higher by \$24.6 million in 2012 due to higher loan volume tied to SAFRA.

STUDENT AID ADMINISTRATION

2. Increase in discretionary servicing costs for Federal student loan programs, primarily the Direct Loan program (+\$93.9 million). Most of the servicing increases are directly attributable to anticipated loan volume increases resulting from passage of SAFRA, which converts all new Federal student lending to the Direct Loan program. The discretionary increase excludes mandatory funding as provided through SAFRA to pay for the administrative costs of servicing contracts with eligible Not-For-Profit servicers. It is anticipated that mandatory servicing costs for these servicers will increase \$72.9 million.
3. Increase in development to improve and redesign Integrated Partner Management (+\$15.4 million). More information is provided in the Redesign and Improve Information Systems section of 2012 Priorities (see page AA-18).

The following chart displays the FY 2012 major cost increases by category. At 42 percent and 31 percent, respectively, servicing and student aid delivery account for 73 percent of the cost increases for Student Aid Administration.

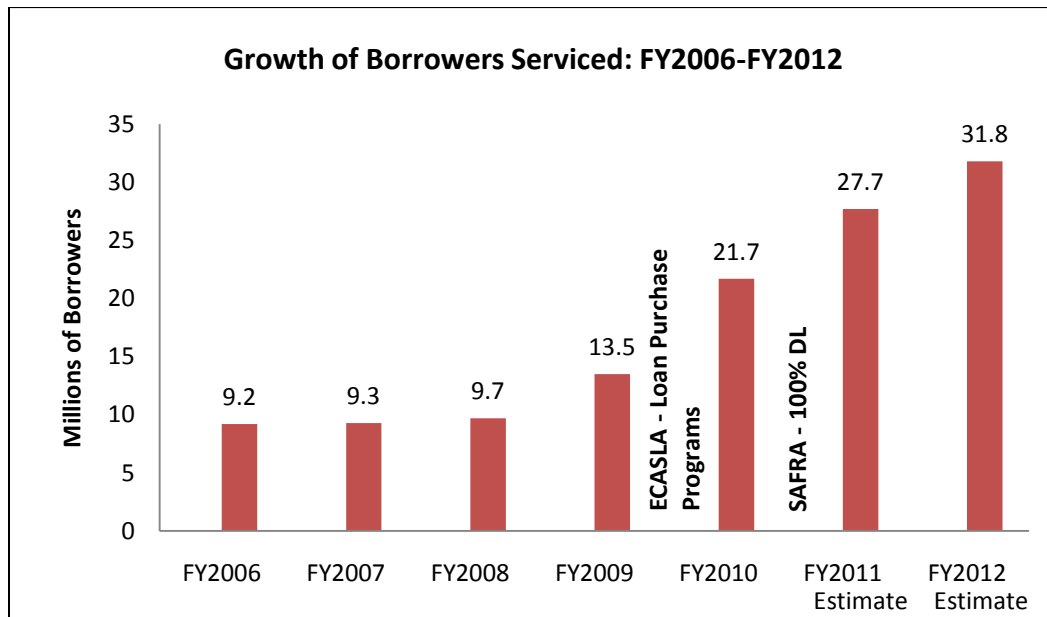


STUDENT AID ADMINISTRATION

2012 Student Aid Administration Priorities

Effectively managing the expanded student loan portfolio

SAFRA ended the Federal Family Education Loan (FFEL) program, shifting all new Federal loan originations to the Direct Loan (DL) program beginning July 1, 2010. The Department's 2012 budget request ensures capacity to effectively handle and manage the substantial increase in servicing volume.



This chart shows that the number of borrowers serviced by the Department has increased significantly from 9.2 million in FY 2006 to an estimated 31.8 million in FY 2012, a 245.7 percent increase. To provide adequate servicing capacity and ensure borrowers continue to receive the assistance they need to effectively manage their Federal student loans, the Department entered into performance-based contracts with four vendors: American Education Services/Pennsylvania Higher Education Assistance Agency (AES/PHEAA); Great Lakes Education Loan Services; Nelnet, Inc.; and Sallie Mae Corporation. Together, these performance-based contracts, referred to as Title IV Additional Servicers (TIVAS), service a portion of the Federal student loan portfolio.

The TIVAS contracts are designed to foster savings through implementation of a low pricing schedule which encourages the servicers to keep borrowers in repayment status. The TIVAS contracts also foster improved service and accountability through competition by allowing the Department to allocate loan volume annually based on vendor performance.

SAFRA authorized the use of eligible Not-For-Profit (NFP) Servicers to service a portion of the Federal student loan portfolio. Two of the TIVAS servicers, AES/PHEAA and Great Lakes Education Loan Services, are classified as NFP servicers, and servicing by other NFPs is expected to be procured in 2011. According to SAFRA, NFP servicers will have the same

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requirements in terms of quality, performance, and accountability as the Direct Loan servicers. NFPs will be allocated a minimum of 100,000 servicing accounts each, although future allocation may vary based on performance.

Funding for NFP servicing costs is provided under mandatory budget authority. For 2012, this includes: \$235.5 million for NFP servicing costs; \$10 million for system development costs required for servicing student loans in accordance with agreements entered into with the Department; and \$1.4 million for customer satisfaction surveys to help measure NFP servicer performance and determine loan allocation.

The 2012 budget request includes \$517.6 million in origination and discretionary loan servicing costs. The origination costs will be covered by the Common Origination and Disbursement (COD) contract (\$147.3 million) while the non-NFP servicing expenses of \$370.3 million will be split between Common Services for Borrowers (CSB) and TIVAS. The servicing cost estimate takes into account overall loan volume, repayment status of the borrower, and the timing of loan delivery. Loan servicing costs are presented separately from other student aid administration operating costs to provide greater transparency on the main driver of the overall budget request.

The following table details the discretionary budget authority for For-Profit servicers and the major assumptions driving servicing costs for Department-held federal student loans. Servicing costs are largely determined by volume (average borrower accounts per month) and the average contractual unit costs negotiated to service the volume. Average borrower accounts per month are calculated by the distribution of new unique borrower accounts to one of the multiple servicers contracted with the Department. Currently, the Department contracts with five servicers, through the Common Servicers for Borrowers (CSB) contract and the Title IV Additional Servicers (TIVAS) contract. The average unit cost to service each borrower is derived by contractual pricing schedules based on different borrower statuses (e.g. in-school, in-grace\current repayment, deferment\forbearance, and delinquency). Differences in distribution among loan statuses will affect overall unit costs due to different pricing for different statuses (e.g., in-repayment borrowers cost more to service than in-school borrowers).

	2010	2011 CR	2012
For-Profit Volume (borrowers)	17,637,573	18,862,775	19,280,392
For-Profit Average Unit Cost per Month	\$1.357	\$1.465	\$1.600
Number of Servicing Months	12	10	12
Total For-Profit Loan Servicing Cost (\$ in millions)	\$287	\$276 ¹	\$370

¹ Loan servicing costs for 2011 CR is based on funding levels in FY 2011 that represent the annualized continuing resolution levels of the 4th Continuing Appropriations Act, 2011 (P.L. 111-322). These costs only support 10 months of servicing.

STUDENT AID ADMINISTRATION

Improve and Simplify Access to Postsecondary Education

One key initiative to improve college access is to simplify the process for applying for federal student aid. Federal Student Aid has begun to simplify the Free Application for Federal Student Aid (FAFSA) by allowing applicants to skip unnecessary questions and by providing instant estimates of Pell Grant and student loan eligibility. So far this initiative has included easier navigation of the online application and designing questions for applicants with relevant characteristics. The General Services Administration recognized the Department with its 2010 Citizens Services Award for the FAFSA simplification efforts.

In addition, in 2011, the Department of Education will improve the accuracy of student aid awards through the greater use of information received directly from the Internal Revenue Service (IRS). The Department already gives students the opportunity to use a simpler, more accurate process that retrieves their tax information from the IRS and automatically transfer that data to the Free Application for Federal Student Aid (FAFSA). Administrative actions, announced concurrently with the 2012 Budget, will significantly enhance that process starting in academic year 2011-2012 and beginning the following academic year students and families who have already filed taxes before applying for aid will be required to use this process.

For the 2011-2012 academic year, the IRS data retrieval process will be enhanced to increase its usage. The tool was made available on January 30th, and this is the first year when the system will be available for use during the peak of the FAFSA application cycle. Additional improvements will make data available to students filing corrections and will include improving the IRS taxfiler authentication process.

Beginning with aid awards disbursed in the 2012-13 academic year, the Department of Education will implement an enhanced verification process that would rely on a combination of the existing, but further enhanced, IRS data retrieval tools and changed requirements for the verification process performed by financial aid administrators. Applicants who have already filed their taxes when they complete their FAFSA will be required to use the IRS data retrieval process to automatically populate the FAFSA with required IRS items once their tax return has been filed. Applicants who file their taxes after they have filed their FAFSA will be asked to update their FAFSAs with IRS data. Finally, most applicants who are selected for verification by colleges will be required to correct their FAFSA with IRS data or provide their school with an IRS-approved transcript of their tax data instead of simply a copy of their tax return.

The 2012 budget request includes \$1 million to improve the FAFSA through a shorter and straightforward online application, simplified login, and customized user options. In addition, \$1.3 million will be used for the effort with the IRS.

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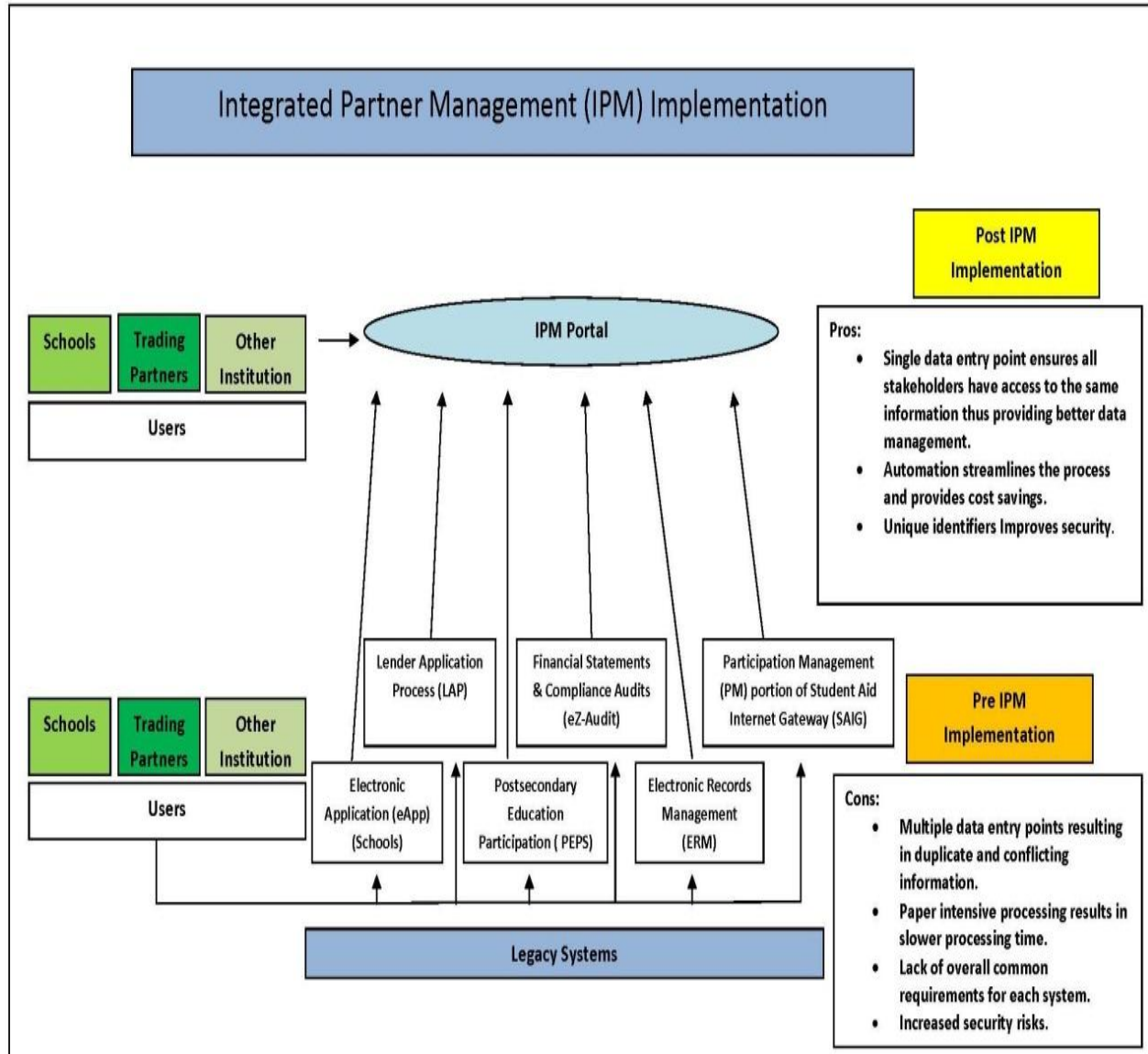
Redesign and Improve Information Systems

With the increased responsibility of being the sole Federal student loan originator and servicer, Federal Student Aid must ensure that the student aid delivery systems are developed and fully-functional, and provide accurate information and prevent information errors that may lead to improper payments or data inconsistency. Thus, in 2012, the Department will continue to integrate and modernize information systems of the Federal student financial assistance programs to provide immediate access to information systems data and to improve the accuracy of borrower, school and financial partner data.

In FY 2012, the Department will focus its efforts on Integrated Partner Management (IPM). Through process reengineering and process automation, IPM will provide improved eligibility, enrollment, and oversight processes used to manage partner entities as they administer Title IV financial aid for students. These processes are currently scattered among six disparate systems. By consolidating them into one, IPM will simplify and reduce duplicate and conflicting data storage, complex system architectures, and excessive file exchange activities. IPM will provide a centralized view of Federal Student Aid, ensuring that all customers and employees have access to the same current institutional eligibility and oversight data. In addition, IPM will provide better data accuracy, information security through a single point of access, and effective oversight to target enforcement efforts. In 2012, \$12 million is being requested for IPM. In addition, \$2.1 million will be needed for Program Compliance Eligibility and Oversight Standards. This will fund contractor support to update and document standards to assure consistency of operations across 10 regional locations for both school and financial partner monitoring. IPM will also require additional system hosting services of \$1.3 million in 2012. Adding these three pieces together, a total of \$15.4 million is being requested for the entire systems integration effort related to IPM.

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The chart in below features the systems that would be integrated into IPM.



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Major Student Aid Administration Operational Projects

The majority of the non-pay funds request for 2012 (\$903.1 million) is needed to process applications for student financial assistance and to deliver aid to students. As detailed below, \$711.8 million, or 78.8 percent of this request, will be used for projects which support the core business functions of student aid delivery, including student aid application, origination, disbursement processes, and loan servicing during the entire life of the loan.

Major Student Aid Administration Operational Projects	
Project	FY 2012 Request \$ in Millions
Common Services for Borrowers, Title IV Additional Servicers Servicing, Perkins Loan Servicing, and Additional Servicers Development	\$374.8
Common Origination and Disbursement	147.3
Front End Business Integration and Operations	86.3
Virtual Data Center	70.8
National Student Loan Data System	13.7
Integrated Partner Management	12.0
Financial Management System	6.9
Total	\$711.8

Note: The Integrated Partner Management request is detailed on pages AA-18-19, Redesign and Improve Information Systems. The other major components of the non-pay request are detailed below.

Common Services for Borrowers (CSB) and Title IV Additional Servicers (TIVAS): \$374.8 million

CSB and TIVAS provide a full range of servicing functions for student loans such as processing of payments, debt collection, and loan consolidation. Customer services range from call centers to system maintenance and enhancements. The performance-based deliverable pricing structure of the contracts encourages the contractor to avert borrower delinquency and move delinquent borrowers to repayment status. Servicing costs are associated with three main drivers: loan volume, specifically unique borrowers; timing of loan servicing, when unique borrowers begin receiving loans; and distribution of total volume among loan statuses: In-School, Grace or Current Repayment, Delinquency, and Default.

The discretionary budget request for CSB and TIVAS reflects projected increases in loan volume not serviced by the NFPs. Loan volume has significantly increased as a result of SAFRA, as well as the current economic environment, in which more students are applying for Federal student aid.

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The requested amount of \$374.8 million also includes \$4.5 million for TIVAS' systems development.

Common Origination and Disbursement (COD): \$147.3 million

The COD system enables approximately 6,200 eligible institutions of higher education to originate and disburse approximately \$41 billion of Title IV funds. These funds are disbursed to approximately 9.6 million eligible students/recipients each award year under the Federal Direct Loan program, Federal PELL, ACG/SMART, and TEACH grant programs. The COD system processes, stores, and reconciles data from several FSA programs. The COD contractor provides operation and maintenance, a call center, and customer service to assist institutions with processing data and managing their administration of Federal Direct Loans and grants. The COD system began servicing Foreign School operations during the 2010/2011 award year. A Final Management Information Report, issued on September 16, 2010 by the Department's Office of Inspector General, "Federal Student Aid's Efforts to Ensure the Effective Processing of Student Loans Under the Direct Loan Program," notes that Federal Student Aid took all necessary actions to ensure processing of student loans as a result of SAFRA and credits COD with successfully providing the capacity to transition to 100 percent Direct lending.

Front End Business Integration (FEBI): \$86.3 million

FEBI includes the Central Processing System (CPS), FSA Information Center (FSAIC), and Editorial Services. CPS provides a centralized system for processing the FAFSA and determining aid eligibility. CPS processes each submitted FAFSA through a series of data checks, formula calculations, and data matching/verifications with other Federal agency databases. CPS also sends eligibility notifications to applicants, schools, and State agencies.

Federal Student Aid provides customer service through large information centers operated under the FSAIC and Editorial Services. FSAIC responds to 8.5 million inquiries annually from students, parents, and financial aid professionals concerning the Title IV student financial assistance programs. The Editorial Services information center responds to approximately 200,000 written inquiries annually.

The widespread (over 98 percent) acceptance of FAFSA on the Web as the preferred method of applying for Federal student aid has substantially increased the efficiency and accuracy with which Federal Student Aid processes the annually increasing number of applications, numbering over 21 million in 2010. The requested funding, which represents a modest increase of \$340 thousand over FY 2011, will also be used to simplify the customer experience on FAFSA on the Web and enhance the Internal Revenue Service data retrieval process for applicants who choose it.

Virtual Data Center (VDC): \$70.8 million

The VDC supports a single computing environment for data and transaction processing, network communication services, infrastructure, and tools required to deliver financial aid. The VDC is a large central site that hosts 75 applications necessary to deliver student financial aid. The operation of a consolidated data center creates economies of scale for hosting systems and other core services, resulting in lower costs to the government.

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National Student Loan Data System (NSLDS): \$13.7 million

Congress mandated the creation of the NSLDS and required the system to include detailed information regarding Title IV aid, such as the number of loans and grants made, and to provide for the electronic exchange of data between program participants and the system. NSLDS stores and collects borrower data from borrowers, schools, lenders, and guaranty agencies and integrates data on student aid applicants and recipients. This comprehensive information is essential for calculating student loan indebtedness of borrowers, budget formulation, portfolio management and policy analysis. NSLDS is also used to calculate cohort default rates, prevent fraud and abuse through pre-screening and post-screening for Title IV aid eligibility, calculate statutory guaranty agency payments and compile data for gainful employment metrics.

The FY 2012 funding request supports the operational and maintenance costs associated with NSLDS. The request also includes \$3.7 million to extend the 15-year old system's life by up to 10 years. These funds will be used to streamline the default rate processes, restructure the database to improve reporting, improve data collection and business functionality, and reduce improper payments to recipients.

Financial Management System (FMS): \$6.9 million

FMS consolidates and manages all Federal Student Aid program transactions from Federal Student Aid's feeder systems. FMS facilitates reconciliation and internal program management and reporting. The system tracks and manages payment processing for Federal Direct Loan originations and processes refunds to borrowers for overpaid loans and payments to lenders and guaranty agencies. It also performs validations and reasonability checks to minimize erroneous payments.

Other Student Aid Administration Projects

The following Student Aid Administration projects support the Department's mission by providing the necessary software, materials, security, and data management for efficient delivery of student aid and information.

Enterprise Software Licensing: \$25.3 million

Federal Student Aid purchases software directly from vendors to leverage enterprise license agreements within Federal Student Aid, the Department and other agencies. The Enterprise Software Licensing initiative acquires enterprise-wide agreements, along with volume discount buys, and consolidates the same type of software with different renewal dates under one agreement. This strategy reduces licensing duplication and enables Federal Student Aid to drive down software costs while exercising better control over software assets. The license agreements support all of the systems hosted at the VDC. The funding request includes technical support, renewal of maintenance agreements for all Federal Student Aid and VDC-supported software and second-year maintenance costs for software purchased during the previous fiscal year. In addition, this request includes the acquisition of new software for programs and the purchase of additional software licenses for new hires.

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Enterprise Information Technology Integration (EITI): \$8.3 million

EITI facilitates the exchange of data from FSA's data partners (e.g., schools, lenders, guaranty agencies, and loan servicers) and among the various student aid systems. The goal of EITI is to promote efficiency during the development of Federal Student Aid applications and provide maintenance support for existing applications.

Comprehensive Security Program: \$6.9 million

The Comprehensive Security Program protects Federal Student Aid data and systems from increasingly sophisticated and effective malicious exploits and hidden persistent threats. In FY 2012, all traffic into and out of the Virtual Data Center and the Department EDUCATE environments will be monitored. This program includes the following initiatives:

- **Cyber Security Tools and Operations:** Cyber Security independently monitors the security measures for the contractors who operate Federal Student Aid systems and ensures that contractors remedy security deficiencies promptly. In 2012, Cyber Security will also track all security incidents and ensure that all alerts and notices from software vendors and the Department of Homeland Security's United States-Computer Emergency Readiness Team are addressed immediately.
- **Security Authorization Assessment:** Through an extensive security controls test, documentation review, interviews, and remediation, the security authorization assessment ensures all Federal Student Aid applications and general support systems are secured from malicious exploits and threats. Continuous testing must be completed to maintain system security authorization. In addition, an official re-authorization is required every 3 years. Currently, 54 systems supporting Federal Student Aid require security authorization.
- **Vulnerability Management:** Several thousand security deficiencies are identified each year from OIG security audits, A-123 audits, financial control audits, continuous monitoring, special assessments, GAO audits, and policy changes. Vulnerability Management will identify these vulnerabilities and risks, establish mitigation strategies, and track the remediation of the deficiency.

Gainful Employment: \$3 million

The Department has proposed a "gainful employment" regulation, which will be used to determine program eligibility for certain non-degree programs. The requested funding will be used to collect information required by the new regulations. Some of this information is currently not available through the Department's existing data collection feeds. Requested funding would provide for the collection and maintenance of that information. In addition, it would assist the Department in calculating certain metrics to determine if institutions' academic programs meet regulatory standards.

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Health Education Assistance Loans (HEAL) Program: \$3 million

Between 1978 and 1998, the HEAL program in the Department of Health and Human Services insured loans made by participating lenders to eligible graduate schools in the health field. Authority to make new HEAL loans expired September 30, 1998, and refinancing ended September 30, 2004. Program authority is proposed to be transferred from the Department of Health and Human Services to the Department in FY 2012. The 2012 request includes these funds for the servicing, collecting, and enforcing of any outstanding HEAL loans. In addition, it provides for the operation and maintenance of the HEAL Online Processing System that supports the continual improvement of claims processing efficiency.

eCampus-Based: \$2.6 million

The eCampus-Based system addresses the congressionally mandated activities of providing Campus-Based funds to eligible Title IV institutions. The Federal Perkins Loan, Federal Work-Study, and Federal Supplemental Educational Opportunity Grant Programs are referred to as Campus-Based programs because the Department allocates these funds to participating institutions for students who need financial aid to meet the costs of postsecondary education. The eCampus-Based system uses Web-based technologies which improve service, reduce improper payment of student aid, and strengthen financial management and internal controls by providing relevant and timely information in the management of day-to-day operations.

Mystery Shopper: \$2.0 million

In response to a GAO report¹ on unfair practices by for-profit college recruiters, the Mystery Shopper program will be used to provide better enforcement of Department regulations and ensure that schools are not violating those regulations and standards.

Communication Strategy Outreach: \$1.7 million

Federal Student Aid's communication strategy seeks to help all Americans understand the benefits of postsecondary education, raise awareness of Federal financial assistance programs and resources, and improve the consistency of all Federal Student Aid's print and electronic communications across the various web sites and publications. Federal Student Aid incorporates national multi-media Public Service Announcements (PSA), targeted to students and parents. The PSAs consistently rank in the top 1 percent of all PSA campaigns tracked by Nielsen. In FY 2010, the PSAs resulted in 794 million television and radio audience impressions. The FY 2012 request targets outreach to underrepresented populations and also focuses on increasing FAFSA completion and supporting partnerships with local communities and national organizations.

¹ U.S. General Accountability Office. *For-Profit Colleges Undercover Testing Finds Colleges Encouraged Fraud and Engaged in Deceptive and Questionable Marketing Practices*, GAO-10-948T.

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Major SAA Contracts

This table provides lists all Student Aid Administration contracts in excess of \$5 million anticipated to be funded in FY 2012. These contracts total \$752.3 million.

Student Aid Contracts Exceeding \$5 Million (\$ in millions)

Name	Description	Vendor	Vendor Location	FY 2012 Funding
Common Services for Borrowers and Title IV Additional Servicers	Servicing and consolidation of direct student loans, servicing FFEL loans, and defaulted loans collection	ACS Education Solutions	Germantown, MD Greenville, TX Utica, NY Montgomery, AL Bakersfield, CA	\$374.8
		PHEAA	Harrisburg, PA	
		Great Lakes Education Loan Services, Inc.	Madison, WI Boscobel, WI	
		Nelnet Servicing, LLC	Lincoln, NE Aurora, CO Jacksonville, FL Boise, ID Highlands Ranch, CO Houston, TX	
		Sallie Mae Corporation	Reston, VA Wilkes-Barre, PA Fishers, IN Lynn Haven, FL Killeen, TX	
Common Origination and Disbursement	Disbursement of Pell Grants and Direct Loans	Accenture, LLP	Niagara Falls, NY Washington, DC Bethesda, MD Columbus, GA	\$147.3

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Student Aid Contracts Exceeding \$5 Million (\$ in millions) Continued

Name	Description	Vendor	Vendor Location	FY 2012 Funding
Front-End Business Integration	Integration of application processing, aid awareness, and eligibility determination	Vangent Inc. (formerly Pearson)	Coralville, IA Lawrence, KS Rockville, MD Phoenix, AZ	\$86.3
Virtual Data Center	Data center for student financial aid systems.	Perot Systems	Plano, TX Fairfax, VA	\$70.8
Enterprise Software Licensing	Maintenance for software licenses for Financial Management System and database operations.	Various	Various	\$25.3
National Student Loan Data System	Loan-level database to verify student eligibility, calculate institutional default rates, pay guaranty agency fees, track enrollment for loan servicing, and support credit reform accounting.	Briefcase Systems Development, Inc.	Great Falls, VA Washington, DC	\$13.7

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Student Aid Contracts Exceeding \$5 Million (\$ in millions) Continued

Name	Description	Vendor	Vendor Location	FY 2012 Funding
Integrated Partner Management	Integration of institutional eligibility determination and oversight of schools, lenders, guaranty agencies and other FSA partners.	2020 Company, LLC	Falls Church, VA	\$12.0
Enterprise Information Technology Integration	Integration of operational data from multiple student aid systems to facilitate data exchange	Phoenix Programming Services	Baltimore, MD Rockville, MD Washington, DC	\$8.3
Financial Management System	Accounting system for FSA transactions.	Avineon, Inc.	Arlington, VA Washington, DC	\$6.9
Comprehensive Security Program	Continuous monitoring to protect data and systems from hidden cyber threats	Knowledge Consulting Group; Endeavor	Reston, VA; McLean, VA	\$6.9

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Non-Federal Student Aid Support Activities

In addition to funds directly allocated to Federal Student Aid to manage student aid programs, \$88.3 million of the FY 2012 request is allocated to departmental offices other than Federal Student Aid for central support activities, such as rent and central computer services; and for student-aid related activities managed by other Department offices, such as financial management systems operations related to student aid, or Office of the General Counsel support on student aid regulations.

Funding for Departmentwide financial management systems related to student aid will total \$11.7 million in 2012, a decrease from the FY 2011 full-year CR level of \$14.7 million.

Rent payments to the General Services Administration for Federal Student Aid occupied space will total \$19.1 million in 2012, up from \$18.2 million at the FY 2011 full-year CR level.

Combined funding for central computer services and telecommunications will total \$24.4 million in 2012, supporting normal activities and enhancements to the Department's network operations. This is a decrease from the FY 2011 full-year CR level of \$27.3 million.

Other non-pay central support services related to student aid will total \$18.7 million in 2012, a decrease from \$20.7 million at the FY 2011 full-year CR level.

The FY 2012 request also supports 91 FTE and a number of small contracts outside Federal Student Aid. These FTE include personnel in the Office of Postsecondary Education; Office of Management; Office of the General Counsel; Office of the Chief Financial Officer/Chief Information Officer; and Office of Planning, Evaluation, and Policy Development who work extensively on the student aid program. Contract costs reflect activities such as the preparation of the loan portion of the Department's audited financial statement.

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PROGRAM PERFORMANCE INFORMATION

Performance Measures

This section presents selected program performance information, including, for example, Government Performance Results Act goals, objectives, measures, and performance targets and data; and an assessment of the progress made toward achieving program results. Achievement of program results is based on the cumulative effect of the resources provided in previous years and those requested in FY 2012 and future years, and the resources and efforts invested by those served by this program.

In September 2010, the Department released *Federal Student Aid: Strategic Plan, Fiscal Years, 2011-15*. To correspond with the new strategic plan and goals, the Department established the following five goals and numerous performance indicators to measure the delivery of Federal student aid. A few indicators had baselines and targets created in FY 2010. Over the course of FY 2011, the Department will develop current baselines for all performance measures and set targets for the next 5 years.

Goal: Provide superior service and information to students and borrowers.

Measure: Proportion of original FAFSA filers among high school seniors		
Year	Target	Actual
2010	Baseline	49.5%
2011	>= 49.5%	
2012	No Lower than Prior Year	

Additional Information: This new performance measure will measure the effectiveness of the Department's outreach in getting traditional high school seniors to submit a FAFSA application for the first time. The baseline in FY 2010 was 49.5 percent and the target is to have a yearly improvement from the previous year.

Measure: Proportion of original FAFSA filers among workforce aged 25+ without college degree		
Year	Target	Actual
2010	Baseline	3.9%
2011	>=3.9%	
2012	No Lower than Prior Year	

Additional Information: This new measure will measure the effectiveness of the Department's outreach in getting nontraditional students to submit a FAFSA application for the first time. The

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baseline in FY 2010 was 3.9 percent and the target is to have a yearly improvement from the previous year.

In FY 2011, the Department will provide baselines and targets for two additional measures:

- 1) Given the increased focus on the neediest and least-served students, the Department will measure the percentage of original FAFSA filers who come from low-income households. This measure will look at the effectiveness of the Department's outreach in getting low-income students to file a FAFSA application for the first time. The target is to have improvement of this percentage each year.
- 2) The Department will also measure the percentage of students who dropped out of postsecondary school due to financial reasons. The Department will develop a survey to measure the proportion of dropouts that is driven by the lack of financial resources. The target is to reduce this proportion each year.

Measure: Customer service level of American Customer Satisfaction Index for entire aid lifecycle		
Year	Target	Actual
2010	Baseline	74
2011	74	
2012	74	

Note: Customer Satisfaction Scores for the Entire Life Cycle are based upon ACSI scores from the application, in-school and servicing experiences of students and borrowers. Data were weighted based upon the intensity of the experience to the overall life cycle and the number of students within each category of the life cycle.

Additional Information: This measurement will assess the Department's success in providing superior service to students and borrowers throughout the entire aid lifecycle. This measure will look at how the Department is improving in terms of providing a streamlined process for customer interaction and for accessing both information the Department provides to its customers and Department websites.

Goal: Work to ensure that all participants in the system of postsecondary education funding serve the interest of students from policy to delivery.

In FY 2011, the Department will develop two performance measures to assess this goal. First, the Department will measure postsecondary institutions' "ease of doing business with Federal Student Aid." Second, the Department will also continue to study other possible ways to measure the extent to which postsecondary institutions and partners are actively supporting the interest of students and borrowers. Specifically, the Department will develop an additional metric to measure the impact of improvements under development.

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Goal: Develop efficient processes and effective capabilities that are among the best in the public and private sector.

In FY 2011, the Department will develop baselines and targets for two measures to gauge the efficiency and effectiveness of aid delivery. First is the Aid Delivery Cost per Application, and, the second is Loan Servicing-Related Costs per Borrower. These metrics will measure the Department's success in developing efficient processes and effective capabilities that are among the best in the public and private sectors.

Goal: Ensure program integrity and safeguard taxpayers' interest

Measure: Loan Delinquency Rate		
Year	Target	Actual
2010	Baseline	8.8%
2011	<=8.8%	
2012	Maintain the rate lower than baseline	

Note: The delinquency rate is defined as loans serviced by the Department that are 1-270 days past due, divided by the total balance of loans serviced by the Department (not in-school or in-grace loan status).

Measure: Loan Default Rate		
Year	Target	Actual
2010	Baseline	12.3%
2011	<=12.3%	
2012	Maintain the rate lower than baseline	

Note: The default rate is defined as the balance of loans serviced by the Department that are 270 days or more past due and loans serviced in debt collection, divided by the total balance of loans serviced by the Department (not in-school or in-grace loan status).

Additional Information: These indicators will measure the performance on managing outstanding loans to reduce delinquency and default rates. Historical analyses of these metrics show that there is no significant correlation with industry benchmarks and they are not susceptible to economic cycles. The Department aims to maintain or improve these rates yearly.

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Goal: Strengthen Federal Student Aid's performance culture and become one of the best places to work in the Federal Government.

Measure: <i>Best Places to Work in the Federal Government</i> Ranking		
Year	Target	Actual
2010	Baseline	217 th
2011	<217 th	
2012	160 th	

Additional Information: This measure will aim to improve Federal Student Aid's ranking in the *Best Places to Work in the Federal Government* from current bottom quartile to top half by FY 2015. Because the ranking is based on the composite score of the Employee Viewpoint Survey conducted by OPM, it is a good indicator to measure the change in performance culture.

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